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SUBJECT: STATE BANK AFFIRMS COMMITMENT TO FIGHTING INFLATION,
WELCOMES TECHNICAL ASSISTANCE

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¶1. (SBU) SUMMARY: In a candid discussion with EAP DAS Scot Marciel and visiting Department of Treasury representatives, State Bank of Vietnam (SBV) Vice Governor Nguyen Van Binh defended the SBV's efforts to fight inflation. He emphasized that despite pressure to shore up Vietnam's state-owned enterprises, the Bank remained committed to a tight monetary policy. VG Binh conceded that for several months the SBV had occupied a lonely position, but averred that the government now fully accepted the need to contain price increases and expected inflation to drop to 15 percent in 2009. VG Binh acknowledged deficiencies in bank supervision and the collection and dissemination of economic data, and welcomed offers of technical assistance. END SUMMARY.

FIGHTING INFLATION REMAINS THE TOP PRIORITY...

¶2. (SBU) Meeting September 10, DAS Marciel urged the SBV to stay the course in pursuing a tight monetary policy, emphasizing that other economic priorities become impossible in the face of high inflation. Vice Governor Binh agreed, stating that the SBV had seen inflationary pressures building as early as June 2007. However, the rest of the government did not recognize the problem until later and did not begin to take "corrective measures," such as raising interest rates and the reserve requirement until March of this year. VG Binh expressed satisfaction with the GVN's current policies, and said that as a result the "inflation trend" had reduced slightly. [Comment: Binh was likely alluding to the fact that the month-on-month rate of increase in inflation has declined. End comment.] VG Binh said that the SBV was targeting an inflation rate of 25 percent for 2008 and 15 percent in 2009, though he acknowledged that it would be a challenge to meet these targets. .

...IN SPITE OF PRESSURE TO EASE CREDIT

¶3. (SBU) VG Binh acknowledged the fact that a tighter monetary policy has had a significant impact on state-owned enterprises and the banks that had loaned them money, noting that non-performing loans had increased. He said that it was the government's responsibility to provide protection for the economically vulnerable. Asked to elucidate, VG Binh clarified that it was the GVN's role, not the Bank's, to provide a social safety net; however, he did say that the SBV had called upon banks to "share the pain" with SOEs and not raise interest rates too high. . He insisted, however, that the Bank's overriding priority continues to be fighting inflation.

SBV OPEN TO TECHNICAL ASSISTANCE

¶4. (SBU) Citing recent U.S. experience, DOT's Financial Attaché for SE Asia Susan Baker encouraged the SBV to address deficiencies in the banking system before the ratio of non-performing loans reached dangerous levels. Introducing her colleague from the Office of Technical Assistance, Paul Leonovich, Baker reiterated that the USG was prepared to offer expertise on banking supervision as well as help in resolving insolvent banks. VG Binh said that the Bank would welcome such assistance and expected U.S. experts to work closely with the SBV's Director General for bank supervision.

¶5. (SBU) Baker and Leonovich cited data collection, analysis, and dissemination as another set of areas on which the USG would be willing to assist, noting in particular the availability of former Federal Reserve Bank officials. Baker emphasized that in addition to providing more accurate information to policymakers and the market, the ability to marshal data would support the SBV's efforts to enhance its independence. VG Binh agreed, and said that that the SBV was establishing a new department whose main function would be to analyze economic data, and that this new department would welcome the type of assistance that the USG was proposing.

¶6. (SBU) Binh noted that some Vietnamese banks were interested in opening representative offices in the U.S., but added that he understood that having adequate anti-money laundering policies and procedures were an issue. He said that the Asia-Pacific Group on Money Laundering would be doing an assessment of Vietnam's anti-money laundering/counter financing of terrorism regime this year.

¶7. (SBU) Comment: While the SBV appears committed to an anti-inflationary stance, other voices within the Vietnamese

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government seem to be calling for a loosening of monetary policy now that overall inflation has peaked. Our message will continue to be that Vietnam should remain focused on controlling inflation, even if it comes at the expense of higher growth. End comment.